

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING  
(PROPOSAL ONE)

Docket No. RM2023-4

PETITION OF THE UNITED STATES POSTAL SERVICE FOR THE  
INITIATION OF A PROCEEDING TO CONSIDER PROPOSED CHANGES  
IN ANALYTICAL PRINCIPLES (PROPOSAL ONE)  
(February 10, 2023)

Pursuant to 39 C.F.R. § 3050.11, the Postal Service requests that the Commission initiate a rulemaking proceeding to consider a proposal to change an analytical principle underlying the Postal Service's periodic reports. The proposal, to provide a new methodology for calculating workshare discount passthrough percentages for dropshipped, flat-shaped Marketing Mail pieces, is labeled Proposal One and is discussed in detail in the attached.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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## **Proposal One**

### **PROPOSAL TO REPLACE THE CURRENT METHODOLOGY FOR CALCULATING WORKSHARE DISCOUNT PASSTHROUGH PERCENTAGES FOR DROPSHIPPEE, FLAT-SHAPED MARKETING MAIL PIECES**

#### **OBJECTIVE**

Proposal One would replace the methodology currently used to calculate workshare discount passthrough percentages for dropshipped, flat-shaped Marketing Mail pieces. The change would eliminate the volatility inherent in the current methodology that is caused by variations in the volumes and average weights of dropshipped, flat-shaped Marketing Mail pieces and that makes compliance with 39 C.F.R. §§ 3030.283 and 3030.284 more difficult, and sometimes impossible.

#### **BACKGROUND**

In 2017, the Postal Service proposed to improve the methodology it then used to calculate workshare discount passthrough percentages for some Marketing Mail pieces. Docket No. RM2017-11, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Seven), July 28, 2017.

For some flat-shaped Marketing Mail pieces, then, as now, two rates are available: a per-piece rate for pieces up to a 4-ounce breakpoint weight and a combined rate, per piece and per pound, for pieces heavier than the 4-ounce breakpoint weight.

The passthrough percentage calculation in 2017 divided the discount for the heavier pieces by the avoided cost per pound for all pieces, both above and below the breakpoint weight. Docket No. RM2017-11, Order on Analytical Principles Used in Periodic Reporting (Proposal Seven), Nov. 20, 2017, at 3 (Order No. 4227). As such, this method of calculating passthrough percentages was incomplete. It did not include in its numerator pieces below the pricing breakpoint, but it did include the weight of those pieces in the denominator.

The Postal Service therefore proposed, and the Commission approved, what is now the current methodology, which addressed this limitation by including in the numerator the discount for pieces at or below the breakpoint weight (Figure 1):

**Figure 1: Current Methodology for Calculating Workshare Discount Passthrough Percentages for Flat-shaped Marketing Mail Pieces with Piece and Pound Price Components**

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$$\frac{((\text{Pound discount} * \text{Pounds above breakpoint}) + (\text{Piece discount} * \text{Pieces up to the breakpoint}))}{(\text{Avoided cost per pound} * \text{Pounds above and below breakpoint})}$$


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Order No. 4227 at 4, 8.

Calculating dropship passthrough percentages for these flat-shaped Marketing Mail pieces is different than calculating passthrough percentages for most other products. In most other cases, the Postal Service can simply take the unit discount from the published benchmark price given on the relevant pricing table, e.g. Notice 123, and divide by the avoided cost.

For these combined per-piece and per-pound prices, however, this approach does not work because the benchmark price varies with the different weights of the

pieces mailed. Put slightly differently, the Postal Service can only calculate workshare discounts and percentage passthroughs for these flat-shaped Marketing Mail pieces on a weighted basis after mailing, when the weights and numbers of pieces sent are known.

This also means, as a practical matter, that the passthrough percentages for these flat-shaped Marketing Mail pieces can vary, sometimes widely, with changes in mail volumes and weights, which, in turn, has made it more difficult for these passthrough percentages to meet the requirements in 39 C.F.R. §§ 3030.283 and 3030.284.

The problem first arose in Docket No. R2021-2. There, the Postal Service was faced with a situation in which it was mathematically impossible for all six passthrough percentages for Basic Carrier Route Flats (those on 5-Digit pallets and those on all other pallets) to comply with 39 C.F.R. §§ 3030.283 and 3030.284, at least without introducing prices that were irrational on their face, such as making the DDU price for pieces greater than 4 ounces on basic pallets higher than both the DNDC and DSCF prices. Docket No. R2021-2, United States Postal Service Notice of Market Dominant Price Change, May 28, 2021, at 17-18 and Attachment B, R2021-2.xlsx; Docket No. RM2021-6, Responses of the United States Postal Service to Chairman's Information Request No. 1, May 5, 2021, at Q4, and companion file RM2021-6.ChIR1Q4Resp.xlsx.

Accordingly, the Postal Service set Carrier Route rates so as to achieve the fullest possible compliance while still retaining rationality. Docket No. R2021-2, United States Postal Service Notice of Market Dominant Price Change, May 28,

2021, at 16 - 18. The Postal Service set only one rate category out of compliance at 134.3 percent (Basic Carrier Route Flats dropshipped at the DDU), Docket No. R2021-2, Attachment B at Tab “Flats and Parcels Dropship,” and because that passthrough was set above 100 percent, its benefit accrued to mailers.

The Postal Service was aware of this problem when preparing Docket No. R2021-2, and so it also filed a petition with the Commission to address the non-compliance by modifying slightly how it calculated and reported passthroughs for Marketing Mail flats. Docket No. RM2021-6, A Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Three), April 8, 2021. Specifically, the Postal Service proposed to calculate and report passthroughs for Marketing Mail Carrier Route Flats on 5-digit pallets and passthroughs for all other Marketing Mail Carrier Route Flats together instead of separately. *Id.* at 2.

The Commission approved the price adjustments in Docket No. R2021-2. Order No. 5937 at 2. In so doing, the Commission granted “a one-time exemption from the rules of 39 C.F.R. part 3030, subpart J for the Basic Carrier Route flats entered at the DDU workshare discount,” noting both the demonstration of the mathematical impossibility of complete compliance and the Postal Service’s proposal to change the methodology to remedy the non-compliance. Order No. 5937 at 100.

The Commission subsequently approved Proposal Three, finding that the proposed methodology “significantly improves the quality, accuracy, and completeness of the Postal Service’s workshare discounts” and agreed that the prior methodology and separation of 5-Digit pallets from all other Carrier Route flats

“leads to anomalous results and could precipitate inefficient pricing.” Docket No. RM2021-6, Order on Analytical Principles Used in Periodic Reporting (Proposal Three), November 4, 2021, at 11 (Order No. 6032).

While the adjustments made in Docket No. RM2021-6 (Proposal Three) have prevented the recurrence of this compliance problem for Marketing Mail Carrier Route Flats on 5-Digit pallets, the adjustments did not change the underlying methodology for calculating passthrough percentages for other flat-shaped Marketing Mail pieces with piece and pound price components. Changes in volumes and weights still can, and have, caused problems for complying with 39 C.F.R. §§ 3030.283 and 3030.284.

When preparing the most recent rate case, R2023-1, the Postal Service found a great disparity in the volumes and weights of Marketing Mail Carrier Route Flats dropshipped at the DSCF and DDU. There were 79 times more pieces dropshipped at the DSCF than there were at the DDU, and the average weight per piece at the DSCF was 1.625 times higher. The result of both of these things was that it was impossible to have both the DSCF and DDU passthrough percentages comply with 39 C.F.R. §§ 3030.283 and 3030.284. Docket No. RM2022-12, United States Postal Service Application for a Waiver Under 20 C.F.R. § 3030.286, Aug. 8, 2022, at 6-8. Accordingly, the Postal Service filed a request for a waiver permitting the passthrough percentage for Marketing Mail Carrier Route Flats dropshipped at the DDU to be 105 percent. *Id.* at 1, 7, 9.

The Commission agreed that it was impossible for both passthroughs to comply and granted the waiver. Docket No. RM2022-12, Order Approving Postal

Service Application for Waiver under 39 C.F.R. § 3030.286, Aug. 30, 2022, at 9, 11 (Order No. 6261). The Commission also relied upon the Postal Service's representation that the need for the waiver was unlikely to recur and stated that it expects "that the Postal Service shall file a fully supported proposal that would correct the anomaly as soon as practicable and in time for the Commission to fully approve the new structure and / or methodology before the planned July 2023 price increase." Order No. 6261 at 11.

That proposal follows.

## **PROPOSAL**

The Postal Service plans, in its next notice of rate adjustment for market-dominant products, to propose to revise the way it prices flat-shaped Marketing Mail pieces with piece and pound price components and use a pricing structure based primarily upon pieces instead of the current pricing structure, which is based upon pounds. In this new pricing paradigm, the Postal Service develops the per-piece price first, instead of its current practice of developing the heavier weight pound pricing first, which then forms the basis of the price for pieces 4 oz. and less. Under this new paradigm:

- Every piece, regardless of its weight, will pay a fixed, per-piece price. The per-piece price will vary based on the entry, *i.e.* prices for Origin, DNDC, DSCF, and DDU dropshipped pieces will differ based on how far from their destination pieces are entered.
- In addition to the fixed, per-piece price, pieces heavier than the breakpoint will pay a per-pound price for pounds above the breakpoint. In other words, the

pound prices are only applicable to the weight above 4 ounces. A piece weighing 6 ounces will only pay pound prices for 2 ounces (ounces 5 and 6), not all 6 ounces.

- All dropship discounts will be piece-price based, and use the piece cost avoidances provided in Folder 13 filed with the ACR.
- Pound prices will not vary by dropship entry point (DNDC, DSCF, or DDU).

This new structure will allow the Postal Service to retire the current methodology for calculating workshare discount passthrough percentages at issue here and use the same methodology as it uses for most other products, dividing the per-piece discount by the per-piece cost avoidance (Figure 2):

**Figure 2: Proposed Methodology for Calculating Workshare Discount Passthrough Percentages for Flat-shaped Marketing Mail Pieces with Piece and Pound Price Components**

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*Passthrough= Per-piece dropship discount/per-piece dropship cost avoidance (Folder 13)*

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In detail, and again, for some flat-shaped Marketing Mail pieces, two rates are available to mailers: a per-piece rate for pieces up to the 4-oz. breakpoint weight and a combined rate, per pound and per piece, for pieces heavier than 4 oz., as in Figure 3, the current Marketing Mail rates for commercial Carrier Route Flats.



**Figure 3: Marketing Mail Rates for Commercial Carrier Route Flats  
(From Notice 123, Jan. 22, 2023)**

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**USPS Marketing Mail Commercial Flats (Large Envelopes), CMM**

**Commercial Flats (Large Envelopes)**

	Entry Discount	Carrier Route				
		Saturation	EDDM	High Density Plus	High Density	Basic
	None	\$0.265	\$0.266	\$0.288	\$0.356	\$0.426
Flats weighing 4 oz. or less per piece price	DNDC	0.219	0.220	0.242	0.310	0.358
	DSCF	0.207	0.208	0.230	0.298	0.352
	DDU	0.187	0.188	0.210	0.278	0.351
more than 4 oz. per pound price	None	0.683	0.683	0.683	0.683	0.937
	DNDC	0.500	0.500	0.500	0.500	0.665
	DSCF	0.450	0.450	0.450	0.450	0.641
	DDU	0.370	0.370	0.370	0.370	0.637
+		+	+	+	+	+
per piece price	None	0.094	0.095	0.117	0.185	0.192
	DNDC	0.094	0.095	0.117	0.185	0.192
	DSCF	0.094	0.095	0.117	0.185	0.192
	DDU	0.094	0.095	0.117	0.185	0.192

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To ensure that Flats mailers receive prices that increment smoothly when moving from pieces below 4 oz. to pieces above 4 oz., in the current price structure, the rates for pieces weighing 4 oz. or less are calculated as a function of the per-pound rate for pieces above 4 oz.

Specifically, the per-piece rate for pieces weighing 4 oz. or less is equal to the per-piece rate for pieces above 4 oz., plus a per-pound rate equal to four ounces (Figure 4).

#### Figure 4: Calculating the Per-Piece Rate for Pieces Below Four Ounces

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$$\text{Per-Piece Rate} \leq 4 \text{ oz.} = \text{Per-Piece Rate} > 4 \text{ oz.} + (\text{Per-Pound Rate}/16) * 4$$

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For example, the current per-piece rate for Basic Carrier Route pieces dropshipped at the NDC is  $\$0.192 + ((\$0.665/16) * 4) = \$0.358$ , *i.e.*, the per-piece rate of \$0.192 plus one quarter of the per-pound rate of \$0.665. See Figures 3, 4. Put slightly differently, the per-piece rates for pieces weighing 4 oz. or less can also be said to contain both a per-piece and per-pound component, as pieces above 4 oz. do, but the per-pound component is held constant at 4 oz.

By replacing this price structure with the new structure based upon pieces rather than pounds, workshare discount passthrough percentages cannot vary with the different weights of the pieces mailed because passthrough percentages will be calculated independently of the volumes and weights of pieces mailed.

As such, the new pricing paradigm removes the underlying cause of the problem where it was difficult, and sometimes impossible, for the Postal Service to make passthrough percentages for some flat-shaped Marketing Mail pieces comply with 39 C.F.R. §§ 3030.283 and 3030.284.

To demonstrate this, the Postal Service revisited the two previous situations where it could not fully comply with 39 C.F.R. §§ 3030.283 and 3030.284. Using illustrative, revenue-neutral prices from the new pricing paradigm, the Postal Service refigured passthrough percentages for Basic Carrier Rate Flats in the waiver request and its corresponding price case, Docket Nos. RM2022-12 and R2023-1, as well as in Docket No. R2021-2.

The Postal Service also revisited all passthrough percentages for flat-shaped Marketing Mail pieces with piece and pound price components in its two most recent Market Dominant rate cases, Docket Nos. R2022-1 and R2023-1, again using illustrative, revenue neutral prices from the new pricing paradigm.

The Postal Service produced compliant passthrough percentages in every instance.

In the waiver request, the commercial prices for dropshipped Marketing Mail Carrier Route Flats were (Figure 5):

**Figure 5: RM2022-12, Dropshipped Marketing Mail Basic Carrier Route Flats, Commercial Prices**

	<b>Entry</b>	<b>Commercial</b>
Flats weighing 4.0 oz. or less per piece price	Origin	\$0.390
	DNDC	\$0.322
	DSCF	\$0.316
	DDU	\$0.315
More than 4 oz Per Pound Price	None	\$0.877
	DNDC	\$0.605
	DSCF	\$0.581
	DDU	\$0.576
Per Piece Price		\$0.171

Docket No., RM2022-12, United States Postal Service Application for a Waiver Under 39 C.F.R. §3030.286, file “RM2022-12 Waiver.xlsx”, at cells H27 - H37.

Under the current methodology for calculating workshare discount passthrough percentages, these prices produced passthrough percentages of 80.5 percent, 85.6 percent, and 104.9 percent for Marketing Mail Flats dropshipped at the DNDC, DSCF, and DDU. File “RM2023-4 Illustrations.xlsx,” tab R2023-1, cells N67-N69.

The revised illustrative prices were (Figure 6):

**Figure 6: RM2022-12, Dropshipped Marketing Mail Basic Carrier Route Flats, Illustrative Prices Under Revised Pricing Structure**

	<b>Entry</b>	<b>Commercial</b>	<b>Nonprofit</b>
All pieces pay a piece price	Origin	\$0.432	\$0.347
	DNDC	\$0.367	\$0.282
	DSCF	\$0.350	\$0.265
	DDU	\$0.339	\$0.254
Pieces above 4 ounces pay a per-pound price (only for weight above 4 ounces)	None	\$0.688	\$0.394
	DNDC	\$0.688	\$0.394
	DSCF	\$0.688	\$0.394
	DDU	\$0.688	\$0.394

*Id.* at cells G32 – G39, R32 – R39. Under the proposed methodology for calculating passthrough percentages, these prices produced compliant passthrough percentages of 85.5 percent, 100 percent, and 100 percent for the DNDC, DSCF, and DDU passthroughs. *Id.* at cells O67 – O69. Had this pricing structure been in place and had this methodology been in effect at the time the Postal Service filed RM2022-12, no waiver would have been necessary.

Similarly, when the Postal Service filed the Market Dominant price case in Docket No. R2021-2, the prices for dropshipped Marketing Mail Carrier Route Flats on pallets other than 5-Digit were (Figure 7):

**Figure 7: R2021-2, Prices for Dropshipped Marketing Mail Carrier Route Flats on Pallets other than 5-Digit**

	<b>Entry</b>	<b>Commercial</b>	<b>Nonprofit</b>
Flats weighing 4.0 oz. or less per piece price	Origin	\$0.353	\$0.265
	DNDC	\$0.309	\$0.221
	DSCF	\$0.297	\$0.209
	DDU	\$0.289	\$0.201
More than 4 oz Per Pound Price	None	\$0.822	\$0.654
	DNDC	\$0.647	\$0.479
	DSCF	\$0.598	\$0.430
	DDU	\$0.566	\$0.398
Per Piece Price		\$0.147	\$0.101

Docket No. R2021-2, United States Postal Service Notice of Market-Dominant Price Change, May 28, 2021, at Attachment A, p. 58; file “RM2023-4 Illustrations.xlsx,” tab “R2021-2 CR Flats Prices,” cells C4 – C12, E4 – E12.

Under the current methodology for calculating workshare discount passthrough percentages, these prices produced passthrough percentages for Carrier Route Flats on non-5-Digit pallets of 62.7 percent, 81.8 percent, and 134.3 percent for pieces dropshipped at the DNDC, DSCF, and DDU. *Id.* at cells N25 – N27.

The revised illustrative prices were (Figure 8):

**Figure 8: R2021-2, Dropshipped Marketing Mail Carrier Route Flats on Pallets other than 5-Digit, Illustrative Prices Under Revised Pricing Structure**

	<b>Entry</b>	<b>Commercial</b>	<b>Nonprofit</b>
All pieces pay a piece price	Origin	\$0.364	\$0.272
	DNDC	\$0.303	\$0.211
	DSCF	\$0.297	\$0.205
	DDU	\$0.275	\$0.183
Pieces above 4 ounces pay a per-pound price (only for weight above 4 ounces)	None	\$0.618	\$0.337
	DNDC	\$0.618	\$0.337
	DSCF	\$0.618	\$0.337
	DDU	\$0.618	\$0.337

*Id.* at cells J4 – J12, L4 – L12.

Under the proposed methodology, these prices produced compliant passthrough percentages of 85.9 percent, 85.9 percent, and 100.0 percent, for pieces dropshipped at the DNDC, DSCF, and DDU. *Id.* at cells O25 – O27. Again, had this pricing structure been in place and had this methodology been in effect at the time of Docket No. R2021-2, no one-time exemption would have been necessary.

Finally, for the two most recent Market Dominant price cases, the file “RM2023-4 Illustrations.xlsx,” shows that the eight passthrough percentages for flat-shaped Marketing Mail pieces with piece and pound price components in each price case would also be compliant under the new methodology. Tab R2022-1, cells D80 – D89; Tab R2023-1, cells D80 – D89.

Given all of the foregoing, then, the Postal Service respectfully requests that the Commission grant Proposal One, effective as of the date the Commission approves the next Market Dominant rate case, which will put in place the necessary new pricing structure for all flat-shaped Marketing Mail pieces.